

UNIVERSITY OF SASKATCHEWAN

DEPARTMENT OF ECONOMICS

Economics 111.3 (01)

Price Theory and Resource Allocation

FINAL Exam 2006-2007

W. DOELL

TIME: 3 Hours

Multiple Choice: 100 Questions

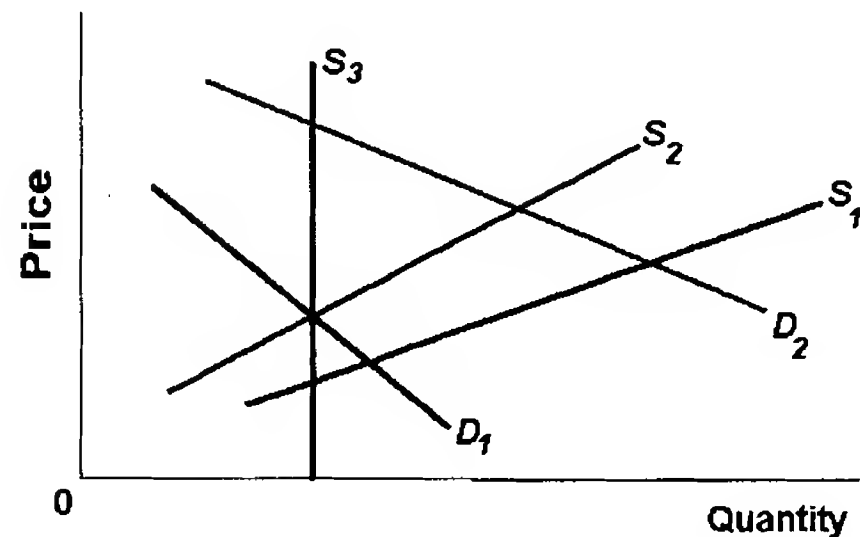
December 15, 2006

CLOSED BOOK

INSTRUCTIONS:

1. On the answer sheet provided, print your name, the name and section number of the class, and the date.
2. Using an HB pencil, code your student number in the box so marked.
3. Answer **ALL** questions by completely filling in the circle whose letter corresponds to that of the **best** option for each question.
4. All questions are of equal value.

Use the following to answer question 1:



1. The above diagram concerns supply adjustments to an increase in demand (D_1 to D_2) in the immediate market period, the short run, and the long run. In the immediate market period the increase in demand will:
 - A) have no effect on either equilibrium price or quantity.
 - B) increase equilibrium price, but not equilibrium quantity.
 - C) increase equilibrium quantity, but not equilibrium price.
 - ☒ D) increase both equilibrium price and quantity.
2. The potential for being fined or imprisoned:
 - A) raises the total utility of criminal behavior.
 - B) lowers the marginal cost of criminal behavior.
 - ☒ C) raises the marginal cost of criminal behavior.
 - D) lowers the price of criminal behavior.

Use the following to answer question 3:

The following cost data is for a purely competitive seller:

Total product	Total fixed cost	Total variable cost	Total cost
0	\$50	\$ 0	\$ 50
1	50	70	120
2	50	120	170
3	50	150	200
4	50	220	270
5	50	300	350
6	50	390	440

Handwritten calculations for average total cost (ATC) and average variable cost (AVC):

ATC (Total Cost / Quantity):

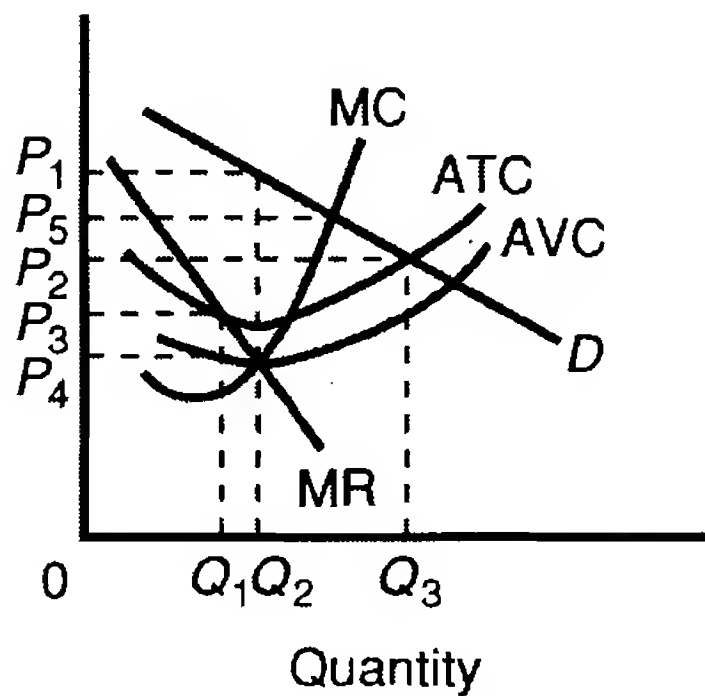
- For Q=1: $120 / 1 = 120$
- For Q=2: $170 / 2 = 85$
- For Q=3: $200 / 3 = 66.67$
- For Q=4: $270 / 4 = 67.5$
- For Q=5: $350 / 5 = 70$
- For Q=6: $440 / 6 = 73.33$

AVC (Total Variable Cost / Quantity):

- For Q=1: $70 / 1 = 70$
- For Q=2: $120 / 2 = 60$
- For Q=3: $150 / 3 = 50$
- For Q=4: $220 / 4 = 55$
- For Q=5: $300 / 5 = 60$
- For Q=6: $390 / 6 = 65$

3. Refer to the above data. If product price is \$75, the firm will:
- A) produce 3 units of output.
 - B) produce 4 units of output.
 - C) produce 5 units of output.
 - ☒ D) produce 6 units of output.
4. The wage rate increases in a purely competitive industry. This change will result in a(n):
- A) decrease in average total cost for a firm in the industry.
 - B) decrease in average variable cost for a firm in the industry.
 - ☒ C) increase in the marginal cost curve for a firm in the industry.
 - D) increase in short-run supply curve for a firm in the industry.
5. Income elasticity measures the effect of a change in income on the purchases of some good or service.
- ☒ A) True
 - B) False
6. An "increase in efficiency" suggests that an economy:
- A) has moved from a point outside of, to a point on, its production possibilities curve.
 - B) has decided to produce more consumer goods and fewer capital goods.
 - C) has moved from a point on, to a point inside, its production possibilities curve.
 - ☒ D) is able to get more output from a given amount of inputs.
7. The economic incentive for price discrimination depends on:
- A) prejudices of business managers.
 - B) differences among sellers' costs.
 - C) a desire to evade antitrust legislation.
 - ☒ D) differences among buyers' demand elasticities.
8. The "after this, because of this" fallacy states that:
- A) positive statements are always followed by normative judgments.
 - B) positive statements can never be proven true or false.
 - C) if one acts on one's expectations, those expectations will always be fulfilled.
 - ☒ D) cause and effect can be determined merely by observing the sequence of events.

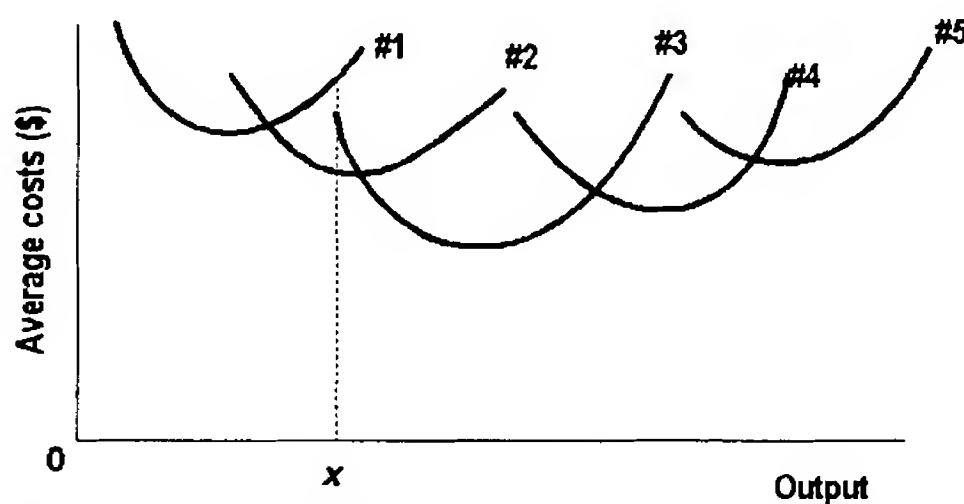
Use the following to answer question 9:



9. Refer to the above cost and demand data for a pure monopolist. Suppose this firm is deemed a natural monopoly and is subjected to a regulatory commission. If the commission seeks to achieve the most efficient allocation of resources for this firm, it should set its price at:
- A) P_1 .
 - B) P_2 .
 - ☒ C) P_4 .
 - D) P_5 .
10. Suppose that when 3000 units of output are produced, the marginal cost of the 3001st unit is \$2. This amount is equal to the minimum of average total cost, and marginal cost is rising. If the optimal level of output in the short run is 3300 units, then at this higher level of output marginal cost is:
- A) equal to \$2 and marginal cost is equal to average total cost.
 - ☒ B) less than \$2 and marginal cost is greater than average total cost.
 - C) greater than \$2 and marginal cost is greater than average total cost.
 - D) greater than \$2 and marginal cost is less than average total cost.
11. A society can reduce unlawful behaviour of the criminals by:
- A) using more sophisticated security systems
 - B) providing education and training to enhance the legitimate earning of people
 - C) increasing the police forces to raise the probability of being apprehended for crime
 - ☒ D) all of the above
12. If the demand for product X is inelastic, a 4 percent increase in the price of X will:
- A) decrease the quantity of X demanded by more than 4 percent.
 - ☒ B) decrease the quantity of X demanded by less than 4 percent.
 - C) increase the quantity of X demanded by more than 4 percent.
 - D) increase the quantity of X demanded by less than 4 percent.

13. What is the meaning of the phrase "dilemma of regulation"?
- A) natural monopolies achieve economies of scale, but charge high prices when there is no government regulation; government regulation reduces prices, but results in diseconomies of scale
 - B) natural monopolies are profitable, but only if the government permits price discrimination; government regulation to restrict price discrimination reduces monopoly prices, but the regulation also reduces monopoly output
 - ☒ C) the fair return price achieves allocative efficiency, but may produce economic losses; the socially optimal price yields a normal profit but may not be allocatively efficient
 - D) the socially optimal price achieves allocative efficiency, but may produce economic losses; the fair return price yields a normal profit but may not be allocatively efficient

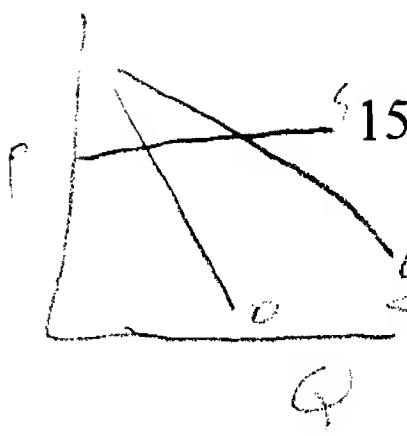
14. The diagram shows the short-run average total cost curves for five different plant sizes of a firm. The position of these five curves in relation to one another reflects:



- A) economies and diseconomies of scale.
- ☒ B) the effect of fixed costs on ATC as output increases.
- C) the law of constant costs.
- D) the law of diminishing returns.

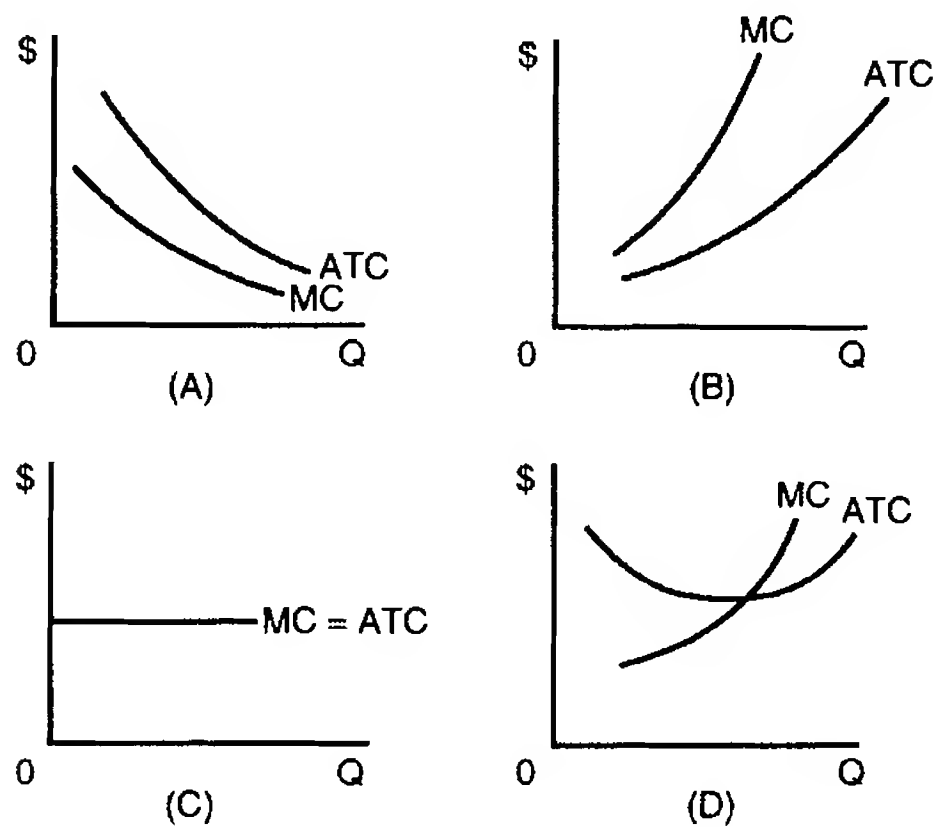
15. If the supply of product X is perfectly elastic, an increase in the demand for it will increase:

- A) equilibrium quantity but reduce equilibrium price.
- ☒ B) equilibrium quantity but equilibrium price will be unchanged.
- C) equilibrium price but reduce equilibrium quantity.
- D) equilibrium price but equilibrium quantity will be unchanged.



16. Suppose an economist says that "Other things equal, the lower the price of bananas, the greater the amount of bananas purchased." This statement indicates that:
- A) the quantity of bananas purchased determines the price of bananas.
 - ☒ B) all factors other than the price of bananas (for example, consumer tastes and incomes) are assumed to be constant.
 - C) economists can conduct controlled laboratory experiments.
 - D) one cannot generalize about the relationship between the price of bananas and the quantity purchased.
17. A purely monopolistic producer will maximize profits by producing at that output where price and marginal cost are equal.
- ☒ A) True
 - B) False
18. Certain inherently desirable products such as education and health care should be produced so long as resources are available.
- A) True
 - ☒ B) False
19. If a purely competitive firm is producing at the $MR = MC$ output level and earning an economic profit, then:
- ☒ A) the selling price for this firm is above the market equilibrium price.
 - B) new firms will enter this market.
 - ~~C) some existing firms in this market will leave.~~
 - ~~D) there must be price fixing by the industry's firms.~~
20. In a typical graph for a purely competitive firm, the intersection of the total cost and total revenue curves would be:
- A) a point of maximum economic profit.
 - B) a point of minimum economic loss.
 - C) a point where $MR = MC$.
 - ☒ D) a break-even point.
21. Suppose that a monopolist calculates that at present output and sales, marginal cost is \$1.00 and marginal revenue is \$2.00. He or she could maximize profits by:
- ☒ A) decreasing price and increasing output.
 - B) increasing price and decreasing output.
 - C) decreasing price and leaving output unchanged.
 - D) decreasing output and leaving prices unchanged.

22. A natural monopoly is characterized by:
- A) collusion with other competitors to divide up the market.
 - B) a decreasing average-cost curve over the feasible range of output.
 - ☒ C) a firm protected from competition by a government regulation.
 - D) a firm having control over the entire supply of a basic input in the production process.
23. "The bigger the volume, the lower the cost, and we pass these savings on to you" is a familiar slogan. It implies the situation shown in the graph:



- A) A.
- B) B.
- C) C.
- ☒ D) D.

Use the following to answer question 24:

It shows cost data for a firm that is selling in a purely competitive market.

Output	AFC	AVC	ATC	MC
1	\$300	\$100	\$400	\$100
2	150	75	225	50
3	100	70	170	60
4	75	73	148	80
5	60	80	140	110
6	50	90	140	140
7	43	103	146	180
8	38	119	156	230
9	33	138	171	290
10	30	160	190	360

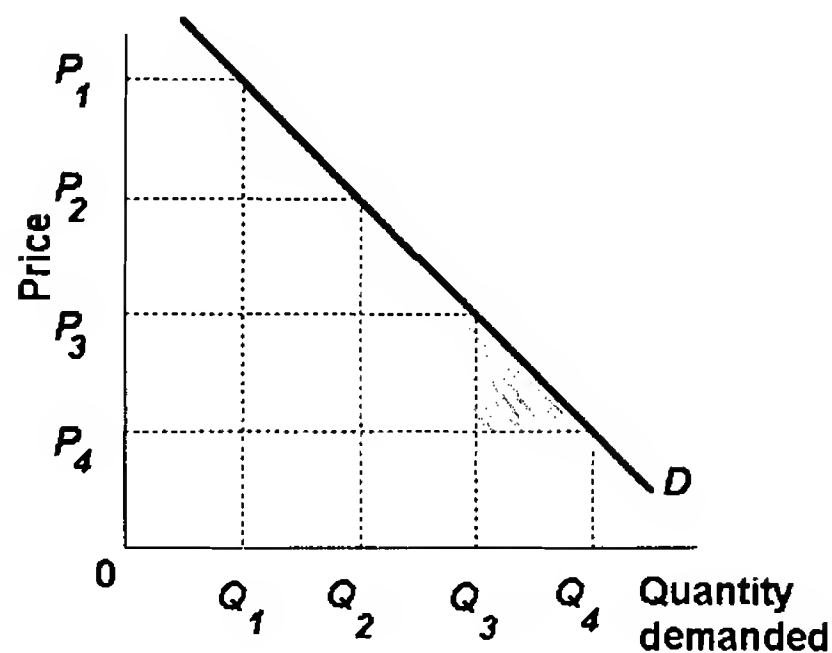
24. Refer to the above table. If the market price for the firm's product is \$50, the competitive firm will:

- A) produce 1 unit.
- B) produce 2 units.
- C) produce 3 units.
- ☒ D) shut down.

25. External benefits

- ☒ A) benefits which accrue to parties other than the producer and buyer of a good.
- B) the benefits which resource suppliers obtain from the production and sale of a good.
- C) the benefit which a consumer receives from buying a good.
- D) the combined benefits which buyer and seller receive from a voluntary market transaction.

Use the following to answer question 26:



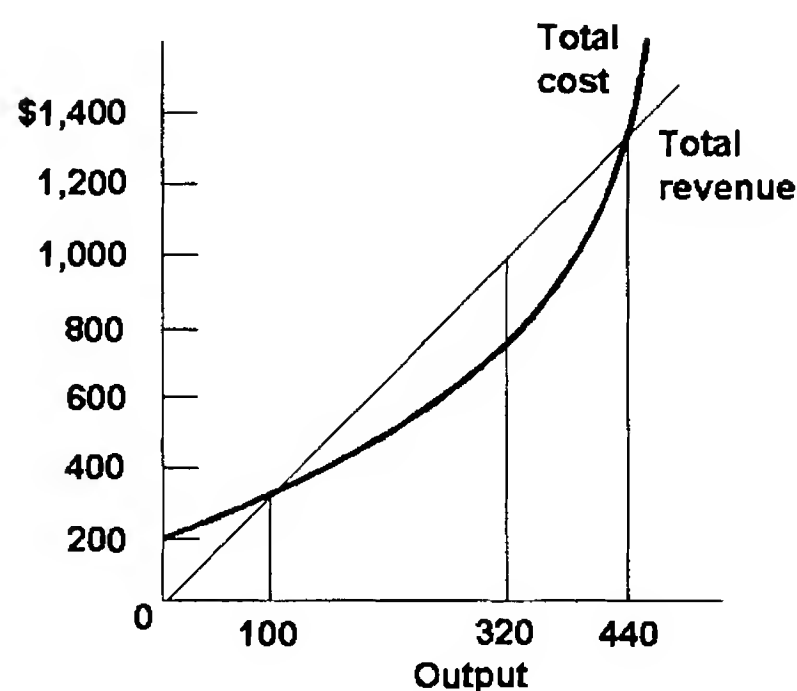
26. Refer to the above diagram. In the P_3P_4 price range demand is:

- A) of unit elasticity.
- ☒ B) relatively inelastic.
- C) relatively elastic.
- D) perfectly elastic.

27. The most efficient combination of resources in producing any output is that combination which:

- A) comes closest to using the same quantities of land, labour, capital, and entrepreneurial ability.
- B) can be obtained for the smallest money outlay.
- C) uses the smallest total quantity of all resources.
- ☒ D) conserves most on the use of labour.

Use the following to answer question 28:



28. Refer to the above short-run data. The profit-maximizing output for this firm is:

- A) above 440 units.
- B) 440 units.
- ☒ C) 320 units.
- D) 100 units.

29. A monopolistic firm has a sales schedule such that it can sell 10 prefabricated garages per week at \$10,000 each, but if it restricts its output to 9 per week it can sell these at \$11,000 each. The marginal revenue of the tenth unit of sales per week is:

- ☒ A) \$1,000.
- B) \$9,000.
- C) \$10,000.
- D) \$1,000.

30. Assume the XYZ Corporation is producing 20 units of output. It is selling this output in a purely competitive market at \$10 per unit. Its total fixed costs are \$100 and its average variable cost is \$3 at 20 units of output. This corporation:

- A) should close down in the short run.
- B) is maximizing its profits.
- C) is realizing a loss of \$60.
- ☒ D) is realizing an economic profit of \$40.

31. George consumes only two goods, pizza and compact discs. Both are normal goods for George. Suppose the price of pizza decreases. George's consumption of compact discs will:

- ☒ A) increase due to the income effect.
- B) increase due to the substitution effect.
- C) increase due to a negative income elasticity.
- D) remain unchanged, since the income elasticity of pizza is greater than 0.

32. If a technological advance increases a firm's labor productivity, we would expect its:

- A) average total cost curve to rise.
- ☒ B) average total cost curve to fall.
- C) total cost curve to rise.
- D) average total cost curve to be unaffected.

33. A purely competitive firm should produce in the short run if its total revenue is sufficient to cover its:

- ☒ A) total variable costs.
- B) total costs.
- C) total fixed costs.
- D) marginal costs.

34. The law of supply:

- A) reflects the amounts which producers will want to offer at each price in a series of prices.
- B) is reflected in an upsloping supply curve.
- C) shows that the relationship between price and quantity supplied is positive.
- ☒ D) is reflected in all of the above.

Use the following to answer question 35:

(The following economy produces two products.)

Production Possibilities

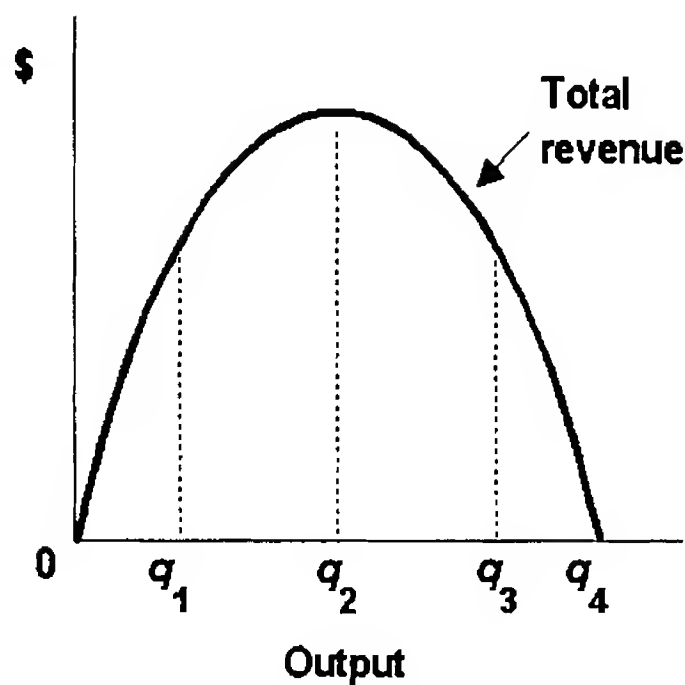
Product	A	B	C	D	E	F
Steel	0	1	2	3	4	5
Wheat	100	90	75	55	30	0

35. Refer to the above table. A change from possibility C to B means that:

- A) 1 unit of steel is given up to get 75 units of wheat.
- B) 2 units of steel are given up to get 75 units of wheat.
- ☒ C) 1 unit of steel is given up to get 15 more units of wheat.
- D) 2 units of steel are given up to get 15 more units of wheat.

36. Price is constant or "given" to the individual firm selling in a purely competitive market because:
- A) the firm's demand curve is downward sloping.
 - B) there are no good substitutes for the firm's product.
 - ☒ C) each seller supplies a negligible fraction of total supply.
 - D) product differentiation is reinforced by extensive advertising.
37. In a market system, well-defined property rights are important because they:
- A) reduce unnecessary investment.
 - B) limit destructive economic growth.
 - ☒ C) create economic problems.
 - ☒ D) encourage economic activity.
38. A positive statement is one which is:
- A) derived by induction.
 - B) derived by deduction.
 - ☒ C) subjective and is based on a value judgment.
 - ☒ D) objective and is based on facts.
39. The division of labour means that:
- A) labour markets are geographically segmented.
 - B) unskilled workers outnumber skilled workers.
 - ☒ C) workers specialize in various production tasks.
 - D) each worker performs a large number of tasks.
40. Cross elasticity of demand measures the effect of a change in the price of one product upon the quantity demanded of another product.
- ☒ A) True
 - B) False
41. The wants of consumers are expressed on the demand side of the product market.
- ☒ A) True
 - B) False
42. Pure monopoly means:
- A) any market in which the demand curve to the firm is downsloping.
 - B) a standardized product being produced by many firms.
 - ☒ C) a single firm producing a product for which there are no close substitutes.
 - D) a large number of firms producing a differentiated product.

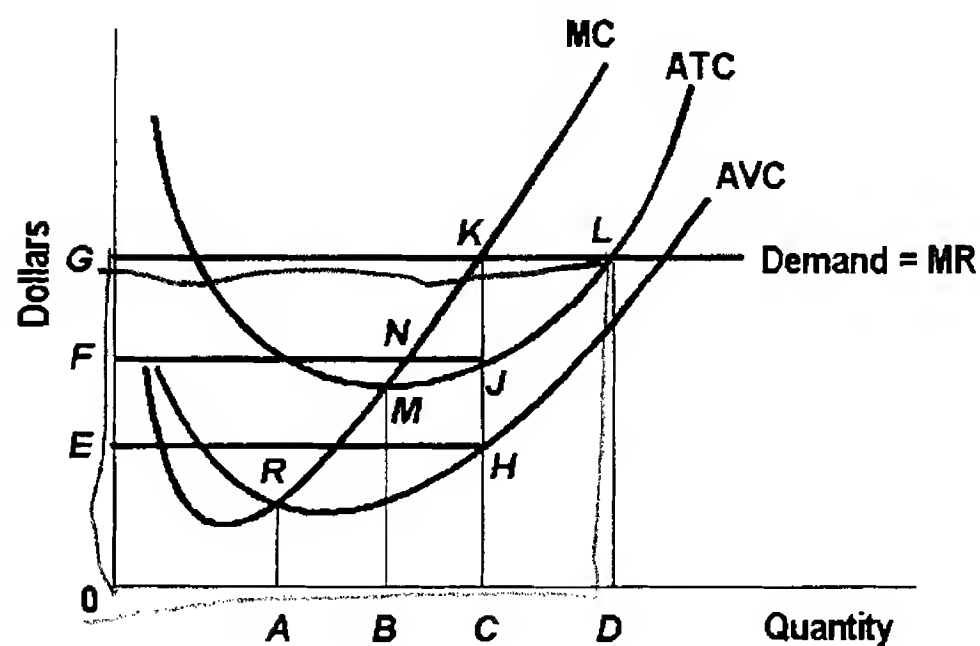
Use the following to answer question 43:



43. Refer to the above diagram for a nondiscriminating monopolist. Demand is elastic:

- A) in the q_1q_3 output range.
- B) only for outputs greater than q_4 .
- ☒ C) for all levels of output less than q_2 .
- D) for all levels of output greater than q_2 .

Use the following to answer questions 44-45:



44. Refer to the above diagram. This firm will maximize profits by producing output D.

- A) True
- ☒ B) False

45. Refer to the above diagram. At the profit-maximizing output total revenue will be 0GLD.

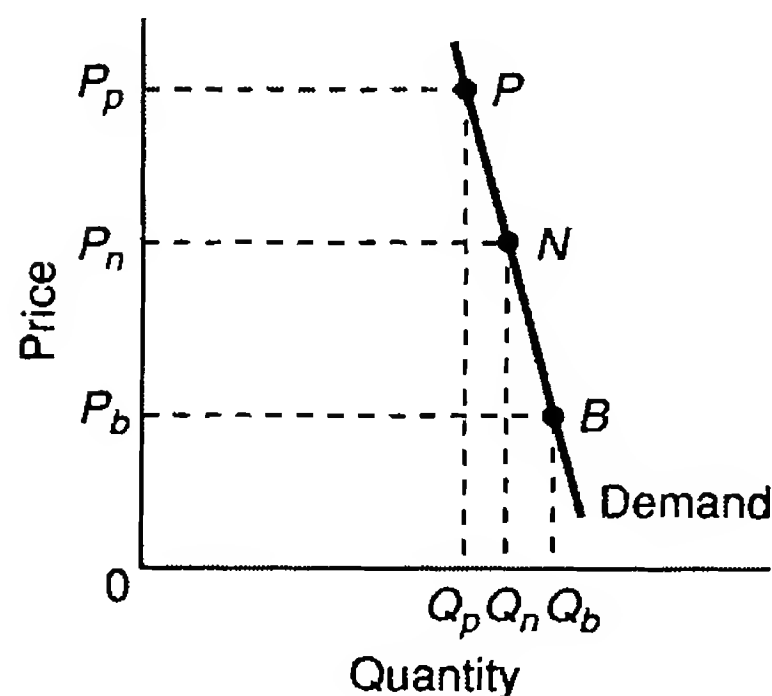
- A) True
- ☒ B) False

46. Other things equal, a perfectly discriminating monopolist will:
- A) realize a smaller economic profit than a nondiscriminating monopolist.
 - ☒ B) produce a larger output than a nondiscriminating monopolist.
 - C) produce the same output as a nondiscriminating monopolist.
 - D) produce a smaller output than a nondiscriminating monopolist.
47. The following question is based on the demand and cost data for a pure monopolist given in the table. Refer to the information below. If the monopolist were forced to produce the socially optimal output by the imposition of a ceiling price, the ceiling price would have to be:

Output	Price	Total cost
0	\$500	\$250
1	300	260
2	250	290
3	200	350
4	150	500
5	100	680

- ☒ A) \$100.
- B) \$150.
- C) \$200.
- D) \$250.

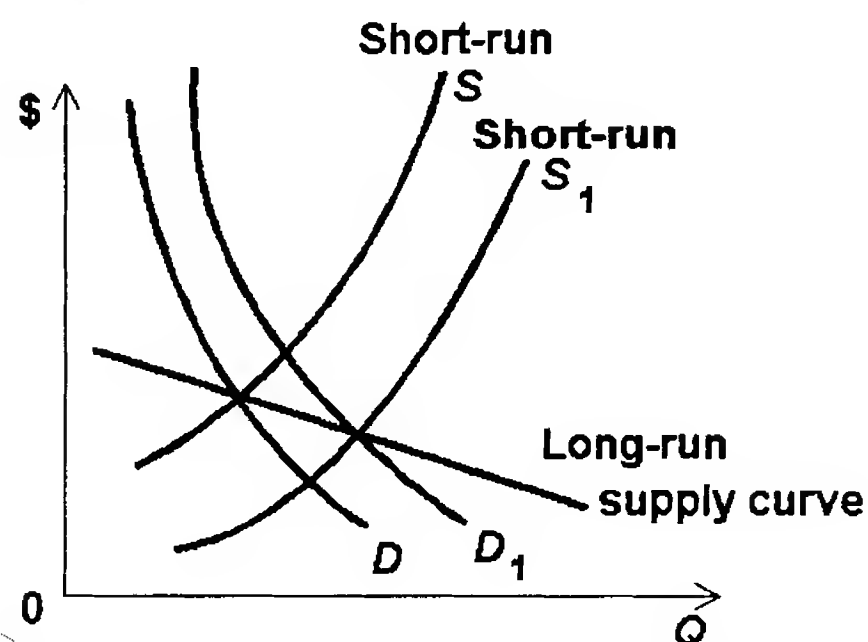
Use the following to answer question 48:



48. Refer to the above diagram. If farmers produce a "normal" crop of Q_n , their gross income:
- A) will be $0P_pPNQ_n$.
 - ☒ B) will be $0P_nNQ_n$.
 - C) will be $P_p \times Q_n$.
 - D) cannot be determined.

49. There is a shortage in a market for a product when:
- A) the increase in supply is greater than the increase in demand.
 - B) the increase in demand is greater than the increase in supply.
 - C) quantity demanded is less than quantity supplied.
 - ☒ D) quantity demanded is greater than quantity supplied.
50. Pure competition produces a socially optimal allocation of resources in the long run because:
- ☒ A) marginal cost equals marginal revenue.
 - B) marginal cost equals average total cost.
 - C) marginal revenue equals price.
 - D) marginal cost equals price.

51. The figure represents a(n):



- ☒ A) decreasing-cost industry: Firms may be paying lower prices for their inputs when the industry expands.
 - B) increasing-cost industry: Firms may be paying higher prices for their inputs when the industry expands.
 - C) competitive, break-even industry: The long-run supply curve is upward sloping as it must be according to the law of supply.
 - D) constant-cost industry: Prices of the inputs stay the same, and other production costs are constant as the industry expands.
52. The fundamental problem of economics is:
- A) to establish a democratic political framework for the provision of social goods and services.
 - ☒ B) the establishment of prices which accurately reflect the relative scarcities of products and resources.
 - C) the scarcity of productive resources relative to material wants.
 - D) to achieve a more equitable distribution of money income in order to mitigate poverty.

53. In pure competition, the demand for the product of a single firm is perfectly:
- A) elastic because the firm produces a unique product.
 - B) inelastic because the firm produces a unique product.
 - ☒ C) elastic because many other firms produce the same product.
 - D) inelastic because many other firms produce the same product.
54. Which will *not* cause a change in the demand for product A?
- A) a change in consumer preferences
 - ☒ B) a change in the price of A
 - C) a decline in consumer incomes
 - D) a decrease in the price of close-substitute product B
55. A firm sells a product in a purely competitive market. The marginal cost of the product at the current output of 800 units is \$3.50. The minimum possible average variable cost is \$3.00. The market price of the product is \$4.00. To maximize profit or minimize losses, the firm should:
- A) continue producing 800 units.
 - B) produce less than 800 units.
 - C) produce more than 800 units.
 - ☒ D) shut down.

Use the following to answer question 56:

The following demand and cost data for a pure monopolist:

<u>Demand Data</u>		<u>Cost Data</u>	
<u>Price</u>	<u>Quantity demand</u>	<u>Output</u>	<u>Total cost</u>
\$5.50	3	3	\$ 5
5.00	4	4	6
4.50	5	5	6.50
3.85	6	6	7.50
3.35	7	7	9
2.90	8	8	11
2.50	9	9	14

56. Refer to the above data. Equilibrium price for the monopolist will be:
- A) \$5.00
 - B) \$2.90.
 - C) \$3.35.
 - ☒ D) \$4.50.

Use the following to answer question 57:

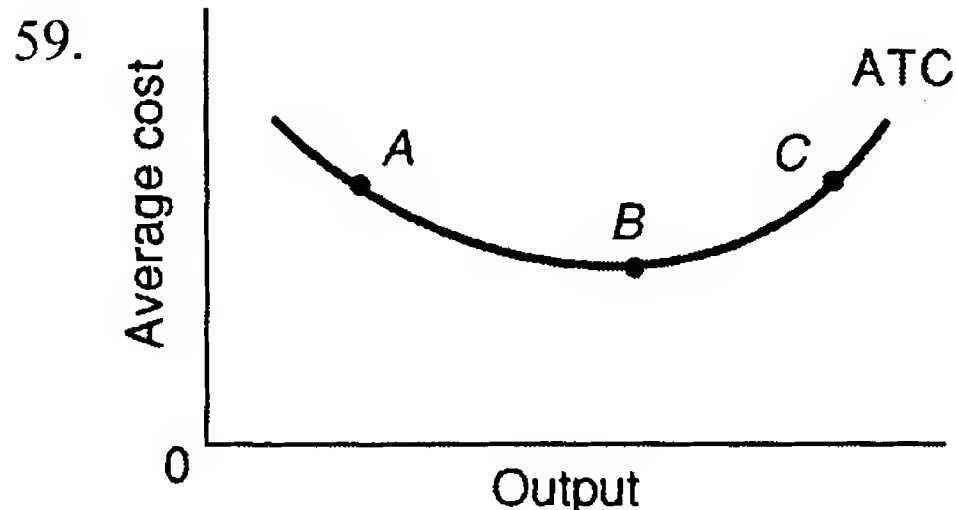
Assume a graph in which dollars are measured on the vertical axis and output on the horizontal axis.

57. Refer to the above information. For a purely competitive firm total revenue:

- ☒ A) graphs as a straight, upsloping line.
- B) is a straight line, parallel to the vertical axis.
- C) is a straight line, parallel to the horizontal axis.
- D) graphs as a straight, downsloping line.

58. Which would definitely not be an example of price discrimination?

- A) A theater charges children less than adults for a movie.
- B) Universities charge higher tuition for out-of-state residents.
- C) A doctor charges for services according to the income of patients.
- ☒ D) An electric power company charges less for electricity used during off-peak hours when production costs are lower.



In the above long-run average total cost curve the:

- A) movement from A to B reflects diseconomies of scale.
- ☒ B) movement from B to C reflects diseconomies of scale.
- C) realization of economies of scale would shift the entire curve downward.
- D) movement from B to C reflects the law of diminishing returns.

Use the following to answer question 60:

$$\begin{array}{r} 75 \\ -35 \\ \hline 20 \end{array}$$

$$\begin{array}{r} 220,000 \\ 45,000 \\ \hline 101,000 \\ 51,000 \end{array}$$

Harvey quit his job where he earned \$45,000 a year. He figures his entrepreneurial talent or foregone entrepreneurial income to be \$5,000 a year. To start the business, he cashed in \$100,000 in bonds that earned 10 percent interest annually to buy a software company, Extreme Gaming. In the first year, the firm sold 11,000 units of software at \$75 for each unit. Of the \$75 per unit, \$55 goes for the costs of production, packaging, marketing, employee wages and benefits, and rent on a building.

60. Refer to the above information. The implicit costs of the firm in the first year were:

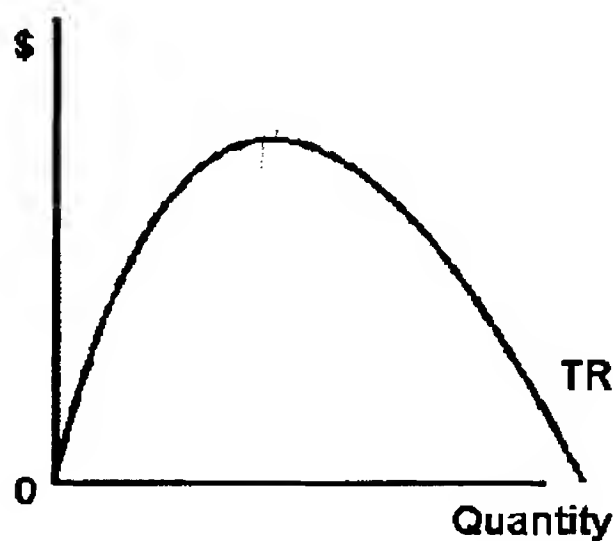
- A) \$50,000.
- ☒ B) \$60,000.
- C) \$100,000.
- D) \$150,000.

61. Spillovers or externalities:

- A) entail costs only.
- B) entail benefits only.
- ☒ C) entail both costs and benefits.
- D) have been legislated out of existence.

Use the following to answer question 62:

The following graph shows a total revenue curve for a monopolist.



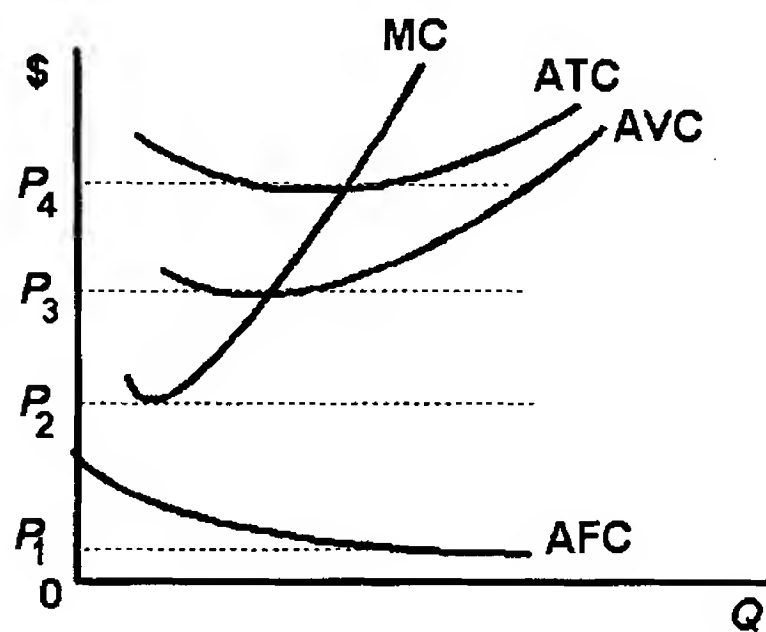
62. Refer to the above graph. The firm's marginal revenue curve is:

- ☒ A) downward sloping.
- B) constant.
- C) upward sloping.
- D) U-shaped.

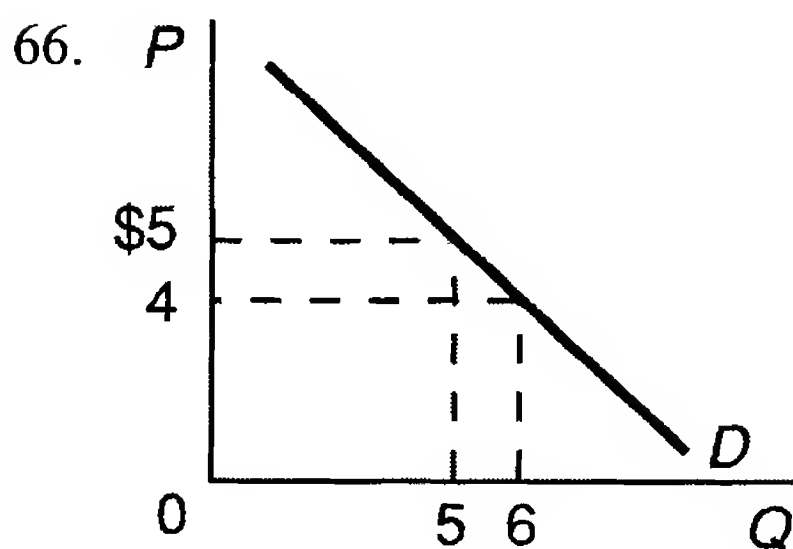
63. The ability of a product to satisfy a large number of consumers simultaneously is called:

- A) Economies of scale
- B) X-inefficiency
- C) Price discrimination
- ☒ D) Simultaneous consumption

64. Given the graph below showing short-run cost curves for a competitive firm, at what price would the firm face the same profit or loss whether it chooses to produce or not?



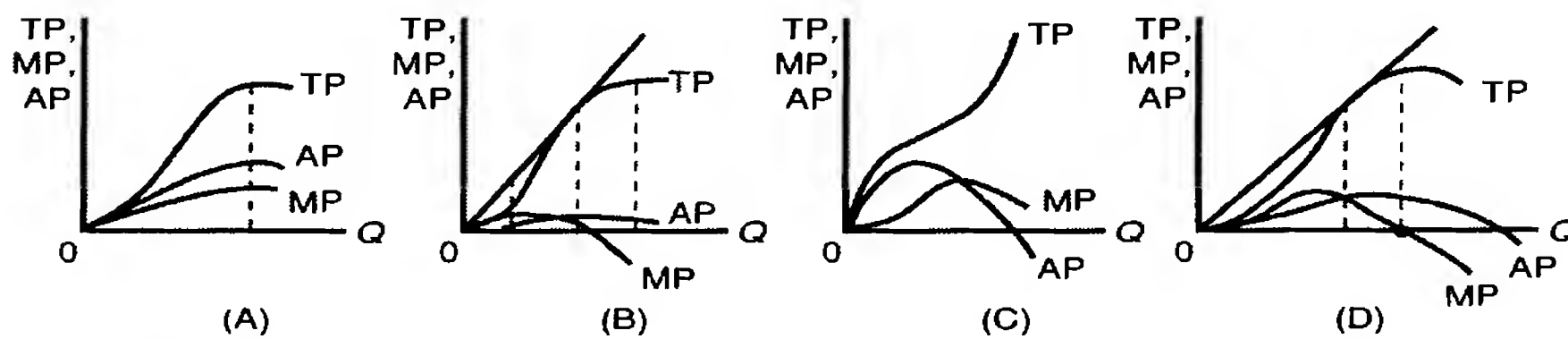
- A) P_1
 B) P_2
 C) P_3
 D) P_4
65. Assume a pure monopolist is currently operating at a price-quantity combination on the inelastic segment of its demand curve. If the monopolist is seeking maximum profits, it should:
- A) retain its current price-quantity combination.
 B) increase both price and quantity sold.
 C) charge a higher price.
 D) charge a lower price.



The above diagram indicates that the marginal revenue of the sixth unit of output is:

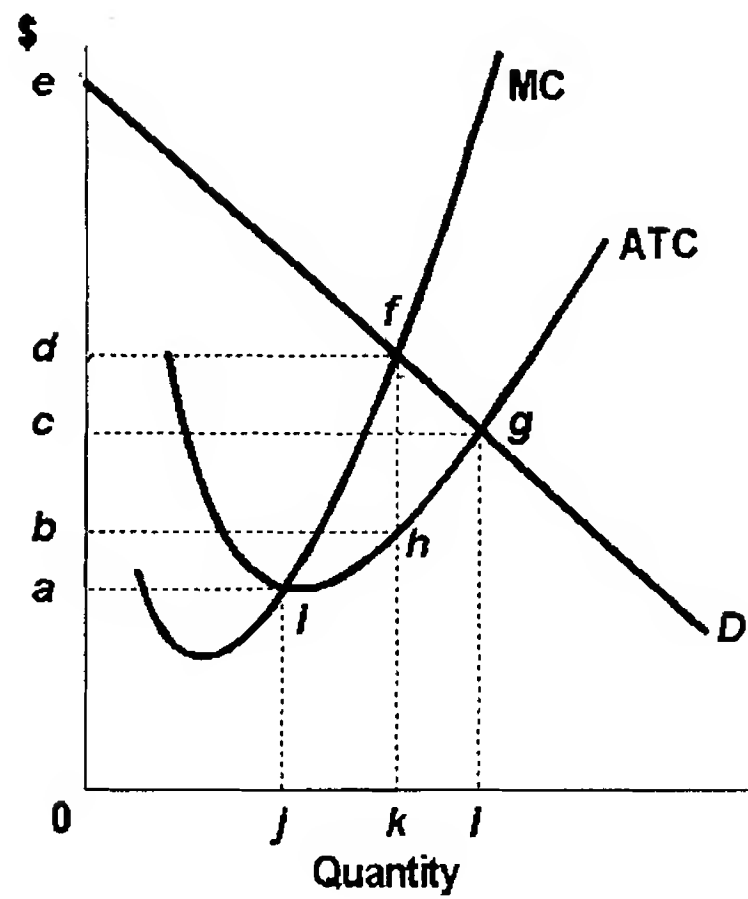
- A) \$1.
 B) -\$1.
 C) \$4.
 D) \$24.

67. If the marginal-cost curve lies below the average-variable-cost curve, the average-variable-cost curve must be falling.
- ☒ A) True
☐ B) False
68. A perfectly elastic demand curve implies that the firm:
- ☐ A) must lower price to sell more output.
☒ B) can sell as much output as it chooses at the existing price.
☐ C) realizes an increase in total revenue which is less than product price when it sells an extra unit.
☐ D) is selling a differentiated (heterogeneous) product.
69. Allocative efficiency occurs when the:
- ☐ A) minimum of average total cost equals average revenue.
☐ B) minimum of average total cost equals marginal revenue.
☒ C) marginal cost equals the marginal benefit to society.
☐ D) marginal revenue equals marginal benefit to society.
70. Which of the graphs properly depicts the relationships TP, AP, and MP?



- (A) graph A
 (B) graph B
 (C) graph C
☒ (D) graph D

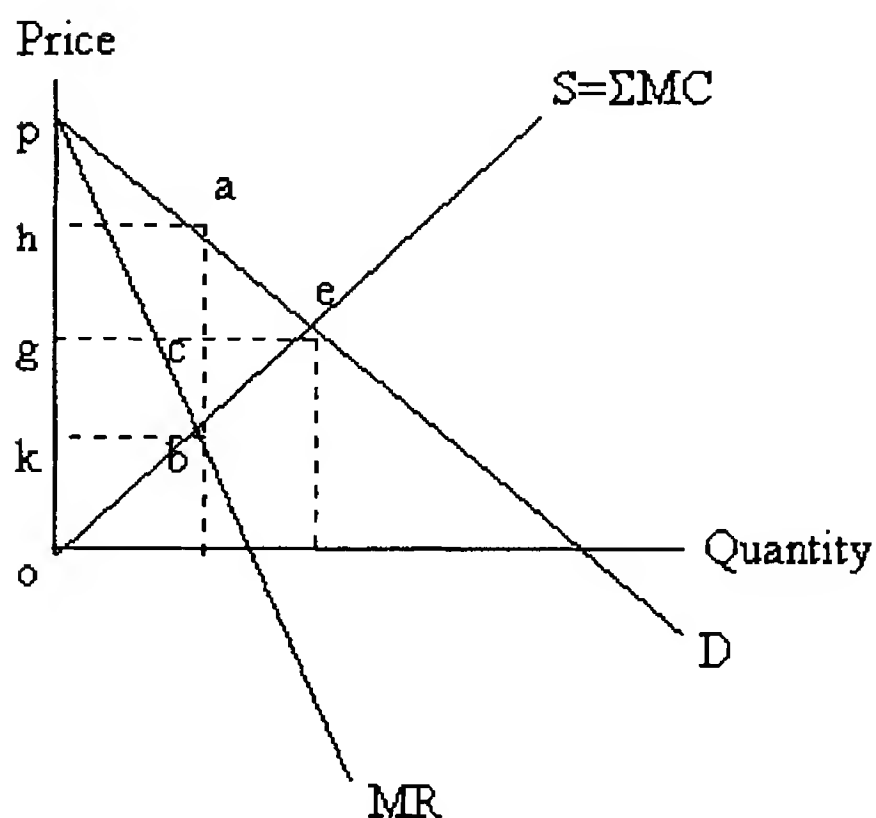
Use the following to answer question 71:



71. Assume the above figure applies to a perfectly discriminating pure monopolist, that is, to a monopolist who is able to extract from each buyer the maximum price that buyer is willing to pay. Total revenue will be:

- A) 0efk.
- B) 0dfk.
- C) 0cgl.
- D) 0bhk.
- E) 0aij.

Use the following to answer questions 72-73:



72. The above diagram represents an industry. Assuming that the market structure for this industry is perfect competition, the producer surplus is shown by the area:
- ☒ A) oge
 - B) abe
 - C) ace
 - D) ghae
73. Refer to the above diagram, assuming a perfectly competitive market structure, what area represents the consumer surplus?
- A) oge
 - B) pha
 - ☒ C) pge
 - D) ghae
74. Assume there is an increase in the demand for hand calculators. The subsequent:
- A) increase in price will be greater in the long run than in the short run.
 - B) increase in price will be greater the greater the inelasticity of supply.
 - ☒ C) increase in price will be greater the greater the elasticity of supply.
 - D) decline in price will be greater the greater the elasticity of supply.
75. Incorporating the value of time required for the consumption of a product along with the market price of the product reflects the "full price" in the consumption of the product.
- ☒ A) True
 - B) False
76. A firm is likely to be a natural monopoly:
- A) when the demand for its product or service is inelastic.
 - B) if it is producing an inferior good.
 - C) if economies of scale are experienced over the full range of output.
 - ☒ D) because government grants it an exclusive franchise.
77. Critics of the regulation of natural monopolies contend that:
- A) regulation increases the incentive of firms to lower costs.
 - B) regulated firms may use "creative accounting" to reduce costs, prices, and profits.
 - C) when rates of return are based on the value of real capital, an uneconomic substitution of labor for capital may occur.
 - ☒ D) the industry may "capture" or control the regulatory commission.

78. Refer to the above data. Equilibrium price will be:

- A) \$4.
- B) \$3.
- C) \$2.
- D) \$1.

$$\frac{20\%}{10\%} = 2$$

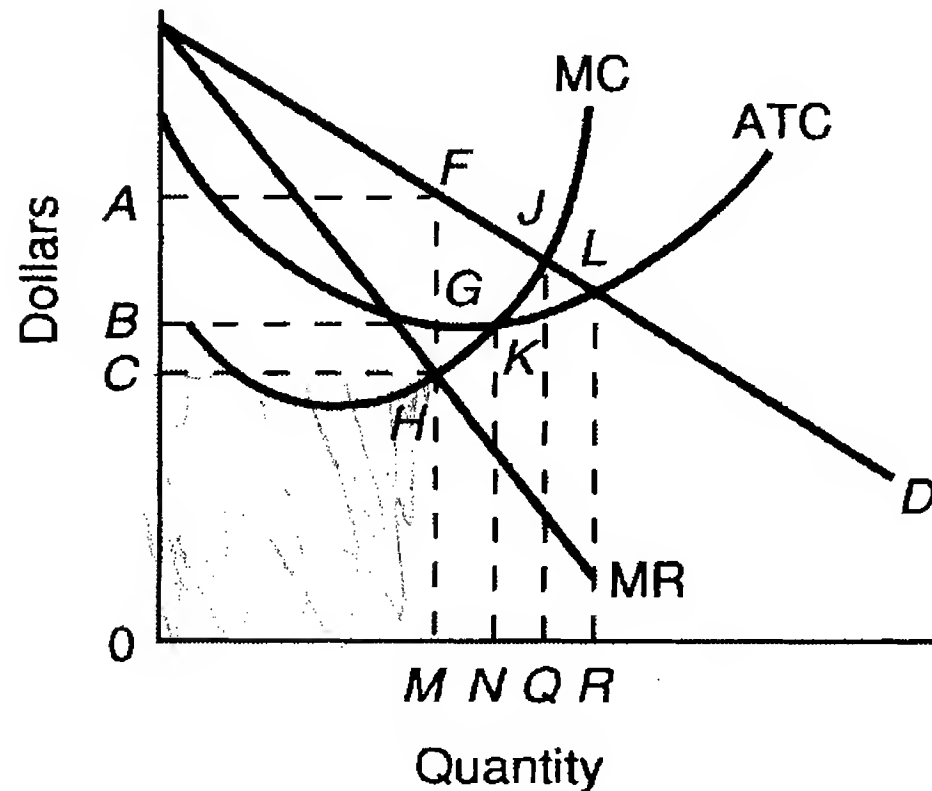
79. The price of product X is reduced from \$100 to \$90 and, as a result, the quantity demanded increases from 50 to 60 units. Therefore demand for X in this price range:

- A) has declined.
- B) is of unit elasticity.
- C) is inelastic.
- ☒ D) is elastic.

80. In general, the amount of X-inefficiency in an industry:

- A) increases as the amount of competition increases.
- ☒ B) increases as the amount of competition decreases.
- C) decreases as the amount of competition decreases.
- D) has no relationship to the amount of competition in an industry

Use the following to answer question 81:

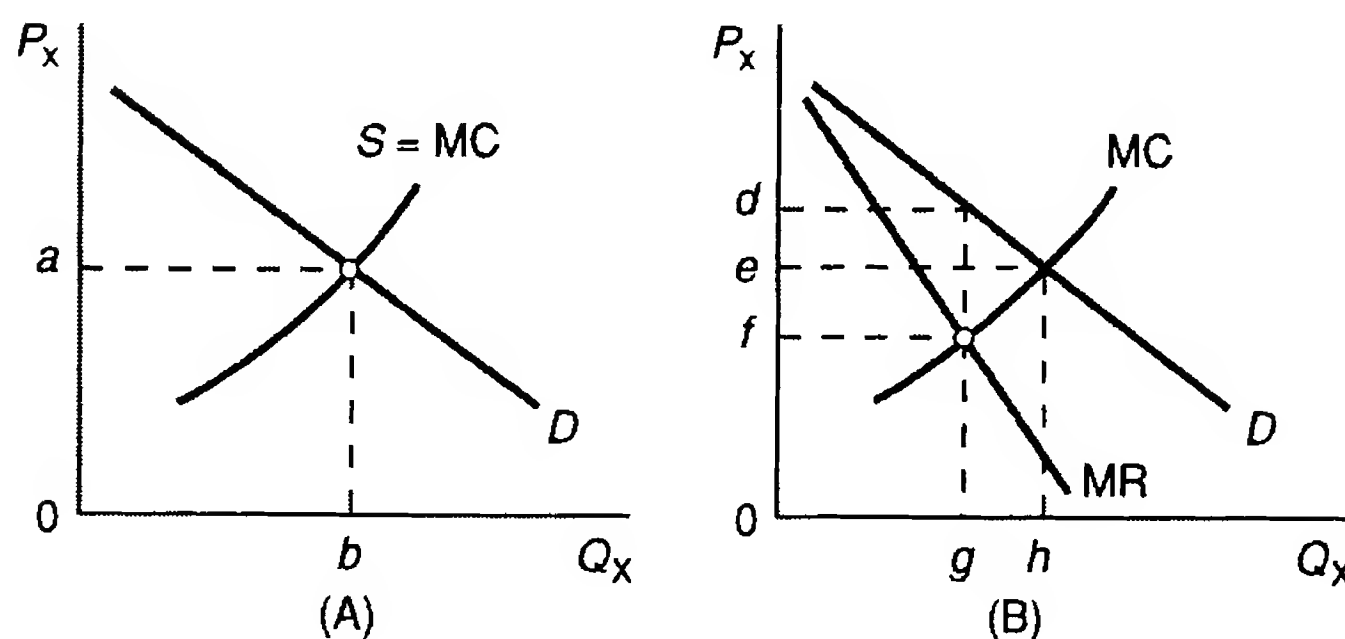


81. Refer to the above diagram for a nondiscriminating monopolist. At output M total variable cost will be 0CHM.

- A) True
- ☒ B) False

82. The term "mixed economy" refers to an economy:
- A) comprised of both product and resource markets.
 - B) which engages in both domestic and international trade.
 - ☒ C) comprised of both extensive private markets and government involvement in the economy.
 - D) which functions primarily on the basis of custom and tradition.
83. The production possibilities curve shows:
- ☒ A) the various combinations of two goods which can be produced when society uses its scarce resources efficiently.
 - B) the minimum outputs of two goods which will sustain a society.
 - C) the various combinations of two goods which can be produced when some resources are unemployed.
 - D) the ideal, but unattainable, combinations of two goods which would maximize consumer satisfactions.
84. Tennis rackets and ballpoint pens are:
- A) substitute goods.
 - B) complementary goods.
 - C) inferior goods.
 - ☒ D) independent goods.
85. If a purely competitive firm is in short-run equilibrium and its marginal cost exceeds its average total cost, then we can conclude that:
- A) this is a decreasing-cost industry.
 - ☒ B) this is an increasing-cost industry.
 - C) firms will exit the industry in the long run.
 - D) firms will enter the industry in the long run.

Use the following to answer question 86:



86. Refer to the above diagrams. Diagram (A) represents:
- ☒ A) equilibrium price and quantity in a purely competitive industry.
 - ☐ B) the pure monopoly model.
 - ☐ C) an industry in which there is productive efficiency but not allocative efficiency.
 - ☐ D) a single firm operating in a purely competitive industry.
87. When the economist says that material wants are insatiable, this means that:
- ☐ A) economic resources are valuable only because they can be used to produce consumer goods.
 - ☐ B) economic resources—land, labor, capital, and entrepreneurial ability—are scarce.
 - ☒ C) these wants are virtually unlimited and therefore incapable of complete satisfaction.
 - ☐ D) the structure of consumer demand varies from time to time and from country to country.
 - ☐ E) the structure of consumer wants is highly unpredictable.

Use the following to answer question 88:

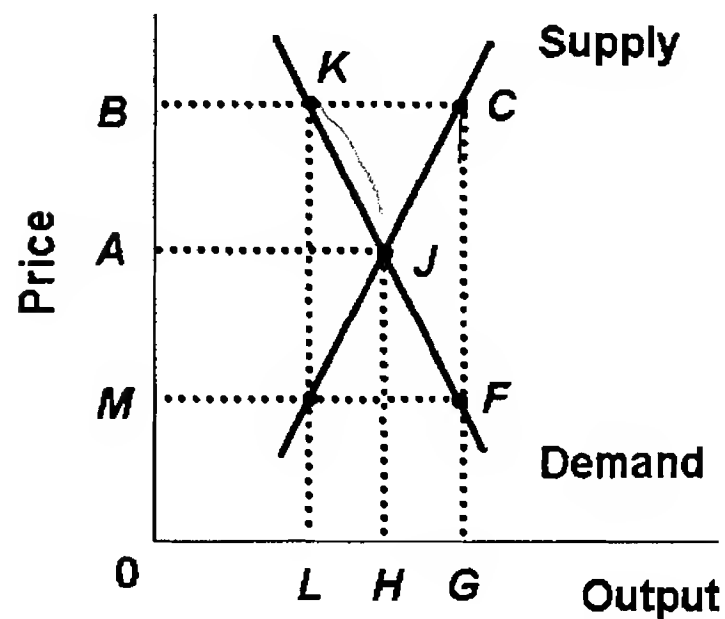
The following two schedules show the amounts of additional satisfaction (marginal utility) which a consumer would get from successive quantities of products J and K.

Units of J	MU _J	Units of K	MU _K
1	56	1	32
2	48 $\div 2 = 6$	2	28
3	32	3	24
4	24 $\div 3 = 8$	4	20
5	20 $\div 4 = 5$	5	12
6	16 $\div 5 = 3.2$	6	10
7	12	7	8

88. Refer to the above data. If the consumer has a money income of \$52 and the prices of J and K are \$8 and \$4 respectively, the consumer will maximize her utility by purchasing:
- ☒ A) 2 units of J and 7 units of K.
 - ☐ B) 5 units of J and 5 units of K.
 - ☐ C) 4 units of J and 5 units of K.
 - ☐ D) 6 units of J and 3 units of K.

89. Mr. Solow has an income of \$20 which he is spending on wine and cheese in such amounts that he derives 25 utils of satisfaction from the wine and 25 utils of satisfaction from the cheese. On the basis of this information we:
- ☒ A) cannot say whether or not Solow is buying wine and cheese in equilibrium amounts.
 - ☐ B) can say that Solow should buy more cheese and less wine.
 - ☐ C) can say that Solow should buy more wine and less cheese.
 - ☐ D) can say that Solow is buying the utility-maximizing amounts of wine and cheese.
90. Total utility is best defined by which of the following?
- ☐ A) the change in marginal utility multiplied by the price of a product
 - ☐ B) the maximum amount of satisfaction from consuming a product
 - ☒ C) the total satisfaction received from consuming a particular amount of a product
 - ☐ D) the additional satisfaction received from consuming one more unit of a product

Use the following to answer question 91:



91. Refer to the above diagram for the corn market. A price support of B will cause taxes to:
- ☐ A) fall by $OB \times OL$.
 - ☐ B) rise by $AM \times OL$.
 - ☒ C) decrease by $LKCG$.
 - ☐ D) increase by $LKCG$.
92. If a rational consumer is in equilibrium, which of the following conditions will hold true?
- ☐ A) $MU_a = MU_b = MU_c = \dots = MU_n$.
 - ☐ B) The marginal utility of each good purchased will be zero.
 - ☒ C) The marginal utility of the last dollar spent on each good purchased will be the same.
 - ☐ D) The total utility obtained from each good purchased will be the same.

93. A firm's total variable cost will depend on:
- A) the prices of variable factors of production.
 - B) the production techniques which are used.
 - C) the level of output.
 - ☒ D) all of the above.
94. Economists use the term "demand" to
- A) a particular price-quantity combination on a stable demand curve.
 - B) the total amount spent on a particular commodity over a stipulated time period.
 - C) an upsloping line on a graph which relates consumer purchases and product price.
 - ☒ D) a schedule of various combinations of market prices and amounts demanded.
95. Suppose that MU_x/P_x exceeds MU_y/P_y . To maximize utility the consumer who is spending all her money income should buy:
- A) less of X only if its price rises.
 - B) more of Y only if its price rises.
 - C) more of Y and less of X.
 - ☒ D) more of X and less of Y.
96. Which is an example of "loaded terminology"?
- A) tentative hypothesis
 - B) market forces
 - ☒ C) creeping socialism
 - D) entrepreneurial functions

Use the following to answer question 97:

The following table shows total utility (TU) data for products A, B, C, and D:

<u>Unit of product</u>	<u>TU-A</u>	<u>TU-B</u>	<u>TU-C</u>	<u>TU-D</u>
First	35	20	15	10
Second	62	38	27	19
Third	82	43	36	27
Fourth	96	53	42	34
Fifth	104	59	44	40
Sixth	105	60	44	45

97. Refer to the above data. For which product would you expect demand to be least elastic?
- A) A
 - B) B
 - ☒ C) C
 - D) D

98. "There can be too much of a good thing." This statement suggests that:
- A) rational choice cannot be applied to many economic decisions.
 - ☒ B) a good may be produced to the point where its marginal cost exceeds its marginal benefit.
 - C) certain goods and services such as education and health care are inherently desirable and should be produced regardless of costs and benefits.
 - D) a good may be produced to the point where its marginal benefit exceeds its marginal cost.

Use the following to answer question 99:

Quantity demanded	Price	Total cost
0	\$600	\$ 200
1	550	300
2	500	350
3	450	410
4	400	490
5	350	600
6	300	740
7	250	920
8	200	1150
9	150	1440
10	100	1800

99. Refer to the above table. Assume this monopolist is able to engage in price discrimination and sell each unit of the product at a price equal to the maximum price the buyer of that unit would be willing to pay. How much greater would the total economic profits be for the discriminating monopolist than the nondiscriminating monopolist?
- A) \$420
 - B) \$540
 - ☒ C) \$730
 - D) \$950
100. The basic difference between the "short run" and the "long run" is that:
- A) all costs are fixed in the short run, but all costs are variable in the long run.
 - B) the law of diminishing returns applies in the long run, but not in the short run.
 - ☒ C) at least one factor of production is fixed in the short run, while all factors of production are variable in the long run.
 - D) economies of scale may be present in the short run, but not in the long run.